

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Howell Carnegie District Library	County Livingston
Audit Date June 30, 2004	Opinion Date July 30, 2004	Date Accountant Report Submitted to State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Name Thomas Darling, CPA	City	State	Zip
Street Address 5750 New King Street, Suite 100	Troy	MI	48098
Accountant Signature 			



**ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2004**

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

July 30, 2004

To the Board of Trustees
Howell Carnegie District Library
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Howell Carnegie District Library (the "Library")**, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Howell Carnegie District Library**, as of June 30, 2004, and the respective changes in financial position, thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

As described in Note I-A, the Library adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2004, on our consideration of the **Library's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-10 and the Defined Benefit Pension Plan Trust information on page 31 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Library's** basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Howell Carnegie District Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- 2003-04 was a significant year for the library as it reached its Help Cultivate Young Minds Capital Campaign goal of \$290,000. This will enable the library to carry out the capital changes to the Youth Services Department to improve use of the space.
- A ten year audited database of revenues and expenditures has been established. This data will be used to apply general forecasting techniques for future library financial planning.
- Total revenues in the General Fund increased by \$45,182 or 3 % over the prior fiscal year. This increase is due mostly to property tax revenues generated from a growing tax base.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library financial statements. The Library basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Library finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements include only the Library itself (known as the *primary government*), and has no legally separate component units for which the Library is financially accountable.

The government-wide financial statements can be found in the last column on pages 11 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

requirements. All of the funds of the Library are considered governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Debt Service Fund and Capital Projects-Equipment fund, each of which are considered to be major funds. Data from the other 4 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Library adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found in the beginning five columns on pages 11-14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and required pension information. Required supplementary information regarding the pension information can be found on page 31 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 32-35 of this report.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$6,178,721 at the close of the most recent fiscal year.

By far the largest portion of the Library net assets reflects its investment in capital assets (e.g., buildings, equipment, furniture and fixtures and materials), less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Library investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. *Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.*

Library Net Assets

	<u>2004</u>
Current and other assets	\$ 3,052,563
Capital assets, net	<u>4,404,176</u>
Total assets	<u>7,456,739</u>
Long-term liabilities outstanding	645,876
Other liabilities	<u>632,142</u>
Total liabilities	<u>1,278,018</u>
Net assets:	
Invested in capital assets, net	
of related debt	3,354,176
Restricted	570,740
Unrestricted	<u>2,253,805</u>
Total net assets	<u><u>\$ 6,178,721</u></u>

Net assets at year-end have been restricted primarily by funding sources for capital projects and permanent trust funds. Of the net asset balance at year end, 54% is invested in capital assets net of related debt, 3% is restricted for capital projects, 3% is restricted for debt service, 4% for other purposes and 36% is unrestricted and available for general Library operations.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Library Changes in Net Assets

	<u>2004</u>
Revenue:	
Program revenue:	
Charges for services	\$ 10,422
Operating grants and contributions	331,436
General revenue:	
Property taxes	1,821,767
State shared revenues	56,224
Other	36,395
Total revenue	<u>2,256,244</u>
Expenses:	
Wages and benefits	989,556
Program materials	3,499
Operating supplies	194,614
Building, grounds and maintenance	148,829
Contracted services	13,912
Interest on long-term debt	79,199
Expendable capital	41,976
Depreciation	296,726
Total expenses	<u>1,768,311</u>
Increase in net assets	487,933
Net assets, beginning of year	<u>5,690,788</u>
Net assets, end of year	<u>\$ 6,178,721</u>

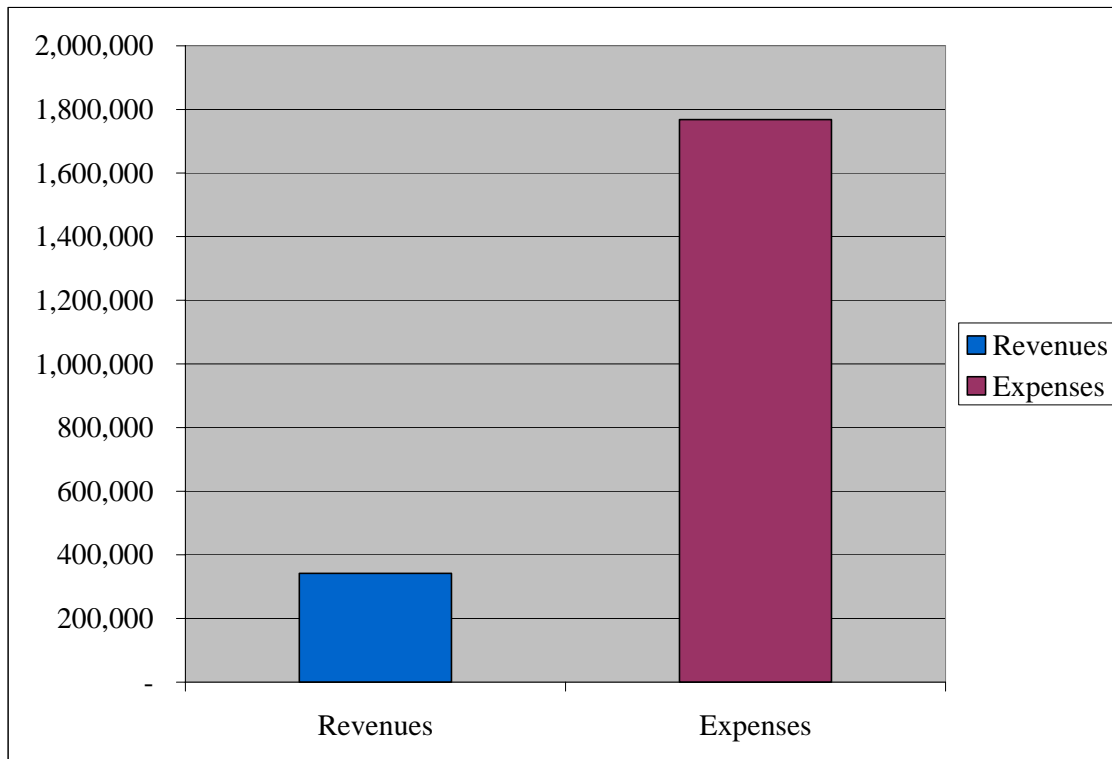
HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. The Library's net assets increased by \$487,933. Key elements of this increase are as follows:

- The excess of operating revenues over expenses of approximately \$125,000 or 25%.
 - The timing difference between the acquisition and reduction of debt related financing of capital assets as compared to the depreciation of capital assets over their estimated useful lives. Resulting in an increase of approximately \$362,582 or 75%.
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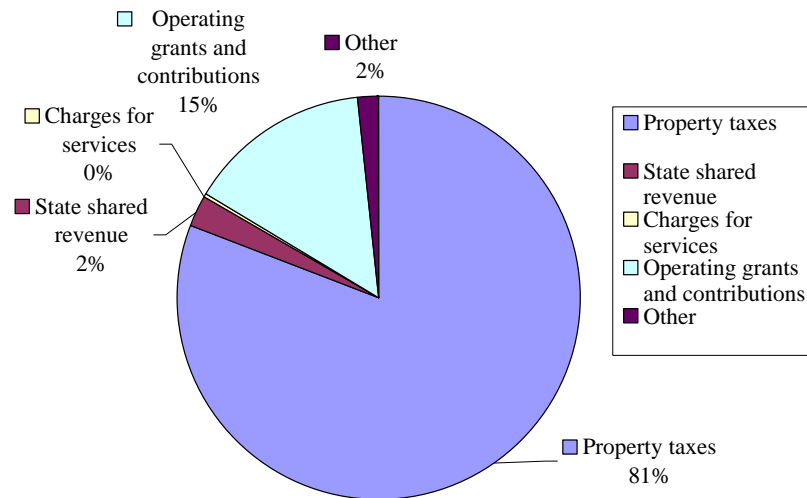
Expenses and Program Revenues - Governmental Activities



HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Library *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balance of \$2,984,055, an increase of \$125,351 compared with prior year. Approximately 57 percent or \$71,559 of this increase was the result of increases to the General Fund with an additional \$86,184 or 68 percent resulting from contributions to the Capital Campaign Fund. Remaining governmental funds recorded a net decrease of fund balance in the amount of \$32,392.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,887,471. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 127 percent of total general fund expenditures.

The fund balance of the Library' general fund increased by \$71,559 during the current fiscal year. Key factors in this growth are as follows:

- An increase in property tax revenues of approximately \$57,000 or 80%.
- The remainder of \$14,550 or 20% is primarily due to other sources.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget for the year .

Capital Asset and Debt Administration

Capital assets. The Library' investment in capital assets as of June 30, 2004, amounts to \$4,404,176 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, equipment, furniture and fixtures, library materials, and construction in progress. The total decrease in the Library' investment in capital assets for the current fiscal year was 2 percent.

Major capital asset events during the current fiscal year included the following:

- Preparation for the capital changes to the Youth Services Department.

Library Capital Assets (net of depreciation)

	2004
Buildings and improvements	\$ 3,672,375
Equipment	120,947
Furniture and fixtures	198,982
Materials	377,727
Construction in progress	34,145
Total capital assets, net	<u>\$ 4,404,176</u>

Additional information on the Library capital assets can be found in note III-C of this report.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the Library had total bonded debt outstanding of \$1,050,000. The total of this amount is backed by the full faith and credit of the Library.

Library Outstanding Debt

	<u>2004</u>
General obligation refunding bonds	<u>\$ 1,050,000</u>

During the year the Library issued no new debt and paid approximately \$485,000 of principal on debt outstanding at July 1, 2004.

The Library's most recent general obligation bond issue had a rating of A from Standard and Poors.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the State Equalized Value. The current debt limitation for the Library is approximately \$180,900,000.

Additional information on the Library long-term debt can be found in note III-E of this report.

Economic Factors and Next Year's Budgets and Rates

- The 2004-05 Budget document has tax revenues estimated to increase about 6%, but almost all other major revenue sources are estimated to be lower than last fiscal year. The total estimated increase in 2004-05 general fund revenues over the estimated 2003-04 general fund revenues is 3.3%.
- 2004-05 Budgeted expenditures for salaries & wages is 2.9% higher than the 2003-04 budgeted expenditures for salaries and wages.
- \$166,079 for the special strategic plan projects next year are all being funded by reserve funds.

Requests for Information

This financial report is designed to provide a general overview of the Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 314 West Grand River, Howell, Michigan 48843.

BASIC FINANCIAL STATEMENTS

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2004**

	General Fund	Debt Service Fund	Capital Project Equipment	Other Funds	Total	Adjustments	Statement of Net Assets
ASSETS							
Cash and investments	\$ 1,756,403	\$ 177,309	\$ 411,402	\$ 476,145	\$ 2,821,259	\$ -	\$ 2,821,259
Accounts receivable	2,169	-	-	-	2,169	-	2,169
Internal receivables	10,551	-	-	-	10,551	(10,551)	-
Due from other governmental units	175,607	-	-	-	175,607	-	175,607
Prepays	-	-	-	42,977	42,977	-	42,977
Capital assets, net of accumulated depreciation	-	-	-	-	-	4,404,176	4,404,176
Total assets	\$ 1,944,730	\$ 177,309	\$ 411,402	\$ 519,122	\$ 3,052,563	4,393,625	7,446,188
LIABILITIES							
Accounts payable	42,074	32	360	\$ 306	\$ 42,772	-	42,772
Accrued expenses	15,185	-	-	-	15,185	9,580	24,765
Internal payables	-	10,000	-	551	10,551	(10,551)	-
Long-term debt:							
Due within one year	-	-	-	-	-	554,054	554,054
Due after one year	-	-	-	-	-	645,876	645,876
Total liabilities	57,259	10,032	360	857	68,508	1,198,959	1,267,467
FUND BALANCES/NET ASSETS							
Fund balances:							
Reserved for:							
Prepays	-	-	-	42,977	42,977	(42,977)	-
Capital additions	-	-	-	184,980	184,980	(184,980)	-
Archives	-	-	-	15,067	15,067	(15,067)	-
Nonexpendable endowments	-	-	-	141,913	141,913	(141,913)	-
Debt service	-	167,277	-	-	167,277	(167,277)	-
Other purposes	-	-	-	18,526	18,526	(18,526)	-
Unreserved:							
Designated - capital additions	874,793	-	-	-	874,793	(874,793)	-
Undesignated reported in:							
General fund	1,012,678	-	-	-	1,012,678	(1,012,678)	-
Special revenue funds	-	-	-	68,857	68,857	(68,857)	-
Capital project fund	-	-	411,042	-	411,042	(411,042)	-
Permanent fund	-	-	-	45,945	45,945	(45,945)	-
Total fund balances	1,887,471	167,277	411,042	518,265	2,984,055	(2,984,055)	-
Total liabilities and fund balances	\$ 1,944,730	\$ 177,309	\$ 411,402	\$ 519,122	\$ 3,052,563		
Net assets:							
Invested in capital assets, net of related debt						3,354,176	3,354,176
Restricted for:							
Capital additions						184,980	184,980
Endowments						141,913	141,913
Debt service						167,277	167,277
Other purposes						76,570	76,570
Unrestricted						2,253,805	2,253,805
Total net assets						\$ 6,178,721	\$ 6,178,721

The accompanying notes are an integral part of these financial statements.

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund balances - total governmental funds	\$ 2,984,055
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	6,481,993
Deduct: accumulated depreciation	(2,077,817)

Certain liabilities, such as bonds payable, accrued interest on bonds payable and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct:	
Bonds payable	(1,050,000)
Accrued interest on bonds payable	(9,580)
Accrued compensated absences	(149,930)

Net assets of governmental activities	<u>\$ 6,178,721</u>
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The accompanying notes are an integral part of these financial statements.

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**COMBINING STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Debt Service Fund	Capital Project Equipment	Other Funds	Total	Adjustments	Statement of Net Assets
EXPENDITURES/EXPENSES							
Wages and benefits	\$ 944,577	\$ -	\$ -	\$ -	\$ 944,577	\$ 44,979	\$ 989,556
Program materials	159,066	-	-	1,580	160,646	(157,147)	3,499
Operating supplies	191,519	-	-	3,095	194,614	-	194,614
Building, grounds and maintenance	148,829	-	-	-	148,829	-	148,829
Contracted services	13,912	-	-	-	13,912	-	13,912
Other expenditures	-	-	-	-	-	-	-
Capital outlay	28,254	-	34,583	37,035	99,872	(57,896)	41,976
Depreciation	-	-	-	-	-	296,726	296,726
Debt service:							
Principal	-	485,000	-	-	485,000	(485,000)	-
Interest	-	83,443	-	-	83,443	(4,244)	79,199
Total expenditures/expenses	<u>1,486,157</u>	<u>568,443</u>	<u>34,583</u>	<u>41,710</u>	<u>2,130,893</u>	<u>(362,582)</u>	<u>1,768,311</u>
PROGRAM REVENUE							
Charges for services	10,422	-	-	-	10,422	-	10,422
Fines and forfeitures	192,910	-	-	-	192,910	-	192,910
State operating grants	7,903	-	-	-	7,903	-	7,903
Contributions and memorials	-	-	-	130,623	130,623	-	130,623
Total program revenue	<u>211,235</u>	<u>-</u>	<u>-</u>	<u>130,623</u>	<u>341,858</u>	<u>-</u>	<u>341,858</u>
Net program expense							<u>1,426,453</u>
GENERAL REVENUE							
Property taxes	1,264,963	556,804	-	-	1,821,767	-	1,821,767
State shared revenue	56,224	-	-	-	56,224	-	56,224
Investment earnings	16,552	1,964	4,713	4,424	27,653	-	27,653
Other revenues	<u>8,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,742</u>	<u>-</u>	<u>8,742</u>
Transfers - internal activities:							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total general revenues	<u>1,346,481</u>	<u>558,768</u>	<u>4,713</u>	<u>4,424</u>	<u>1,914,386</u>	<u>-</u>	<u>1,914,386</u>
Revenues over (under) expenditures	71,559	(9,675)	(29,870)	93,337	125,351	(125,351)	-
Change in net assets	-	-	-	-	-	487,933	487,933
Fund balance/net assets, beginning of year - as restated	<u>1,815,912</u>	<u>176,952</u>	<u>440,912</u>	<u>424,928</u>	<u>2,858,704</u>	<u>2,832,084</u>	<u>5,690,788</u>
Fund balance/net assets, end of year	\$ 1,887,471	\$ 167,277	\$ 411,042	\$ 518,265	\$ 2,984,055	\$ 3,194,666	\$ 6,178,721

The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds	\$	125,351
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		57,896
Add: capitalized materials		157,147
Deduct: depreciation expense		(296,726)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: bond principal payments		485,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: change in accrued interest payable		4,244
Deduct: increase in the accrual for compensated absences		(44,979)

Change in net assets of governmental activities	\$	<u>487,933</u>
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The accompanying notes are an integral part of these financial statements.

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Property taxes	\$ 1,295,400	\$ 1,295,400	\$ 1,264,963	\$ (30,437)
State shared revenue	40,255	40,255	56,224	15,969
State operating grants	-	-	7,903	7,903
Charges for services	8,100	8,100	10,422	2,322
Fines and forfeitures	211,000	211,000	192,910	(18,090)
Investment earnings	19,100	19,100	16,552	(2,548)
Other revenue	1,691	1,691	8,742	7,051
Total revenues	<u>1,575,546</u>	<u>1,575,546</u>	<u>1,557,716</u>	<u>(17,830)</u>
EXPENDITURES				
Wages and benefits	981,587	981,587	944,577	37,010
Program materials	168,921	168,921	159,066	9,855
Operating supplies	217,336	217,336	191,519	25,817
Building, grounds and maintenance	170,400	170,400	148,829	21,571
Contracted services	29,750	29,750	13,912	15,838
Other expenditures	7,552	7,552	-	7,552
Capital outlay	200,000	200,000	28,254	171,746
Total expenditures	<u>1,775,546</u>	<u>1,775,546</u>	<u>1,486,157</u>	<u>289,389</u>
REVENUES OVER (UNDER) EXPENDITURES	(200,000)	(200,000)	71,559	271,559
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(140,000)</u>	<u>(140,000)</u>	<u>-</u>	<u>140,000</u>
NET CHANGE IN FUND BALANCES	(340,000)	(340,000)	71,559	411,559
FUND BALANCES, BEGINNING OF YEAR	<u>1,815,912</u>	<u>1,815,912</u>	<u>1,815,912</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,475,912</u>	<u>\$ 1,475,912</u>	<u>\$ 1,887,471</u>	<u>\$ 411,559</u>

The accompanying notes are an integral part of these financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Howell Carnegie District Library (“the Library”) was organized in 1988 under the provisions of Public Act 164 of 1955, and is considered a local governmental unit. The Howell Carnegie District Library officially amended its Articles of Incorporation to be known as the Howell Carnegie District Library in March of 2002.

The District Library’s borders encompass the City of Howell and portions of the following townships included in the Howell Public School District in 1988; the Townships of Brighton, Cohoctah, Deerfield, Genoa, Hamburg, Handy, Howell, Iosco, Marion and Oceola. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The Library has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

In 2003, the Library implemented Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 38, *Certain Financial Statement Disclosures* and GASB interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management’s discussion and analysis, government-wide financial statements, and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

GASB Statement No. 37 provided additional guidance for the implementation of GASB Statement No. 34 and GASB No. 38 changed note disclosure requirements for governmental entities.

GASB interpretation No. 6 provided guidance to issues and concerns related to the recognition and measurement of certain liabilities and expenditures in governmental funds.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

B. Library-Wide and Fund Financial Statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the none-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Property taxes received, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Library.

The *Capital Project-Equipment Fund* accounts for the resources and major capital equipment purchases of the Library.

Additionally, the Library reports the following fund types:

The special revenue funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific library purposes and activities.

The permanent endowment fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific library programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Library has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the Library-wide financial statements.

Amounts reported as program revenues include 1) charges to individual customers, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed. The exception to this

HOWELL CARNEGIE DISTRICT LIBRARY

HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

policy lies in the area of the endowment fund in which available spendable resources have not been appropriated.

D. Assets, Liabilities, and Net Assets

1. Deposits and investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Library to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding as of year end. All other outstanding balances between funds are reported as "due to/from other funds."

3. Prepaid items

Certain payments made to vendors are for services applicable to future accounting periods and are included as other asset items in both the Library-wide and fund financial statements.

4. Capital assets

Capital assets, which include buildings, equipment, furniture and fixtures, and materials are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$2,500, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

HOWELL CARNEGIE DISTRICT LIBRARY

HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Equipment	5-10
Furniture and fixtures	5-20
Materials	3-7

5. *Compensated absences*

The Library allows employees to accumulate unused compensated absences. The Library allows employees up to 720 hours of sick time. Vacation time lapses on the employees anniversary date one year from the date earned. The Library's liability for compensated absences is included in long term debt in the government-wide financial statements.

6. *Long-term obligations*

In the Library-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted, on a basis consistent with generally accepted accounting principles (GAAP), for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board. The budget for the General Fund is adopted on a categorical level, and the budgets for Special Revenue Funds are adopted on a fund basis.

B. Excess expenditures over appropriations

During the year ended June 30, 2004, there were no instances of incurred expenditures, which were in excess of the amounts appropriated at the legal level of control

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

	Cash and cash equivalents	Investments	Total
Statement of Net Assets			
Deposits	\$ 188,595	\$ -	\$ 188,595
Petty cash	255	-	255
Money market funds	551,734	-	551,734
U.S. Government securities		163,017	163,017
Commercial paper		1,917,658	1,917,658
Total	<u>\$ 740,584</u>	<u>\$ 2,080,675</u>	<u>\$ 2,821,259</u>

At year end, the carrying amount of the Library's deposits was \$188,595. The bank balance of these deposits was \$174,761, of which \$100,00 insured by the Federal Depositary Insurance Corporation (FDIC), and the balance of \$74,761 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

HOWELL CARNEGIE DISTRICT LIBRARY

HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Michigan law authorizes the Library to deposit and invest in:

- 1 Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- 2 Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- 3 Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- 4 Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- 5 Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- 6 Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

For the purpose of providing an indication of the assumed levels of risk, investments are categorized as follows:

- Category 1 Investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name.
- Category 2 Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name.
- Category 3 Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Library's name.

	Category				Carrying Amount (Fair Value)
	1	2	3	Uncategorized	
U.S. Securities	\$ -	\$ -	\$ 163,017	\$ -	\$ 163,017
Commercial paper	-	-	1,917,658	-	1,917,658
Total investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,080,675</u>		2,080,675
Mutual and cash management funds				<u>\$ 551,734</u>	551,734
Total investments					<u>\$ 2,632,409</u>

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

At June 30, 2004, the Library's investments consisted of \$551,734 in governmental liquid asset investment pools, which were uncategorized as to risk. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the pools comply with the investment authority noted above. The bank investment pools are held by the Trust department of the bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

B. Receivables

Receivables as of year end for the governments individual major funds and aggregate nonmajor funds are considered 100% collectable and to be collected within one year. Accordingly, no allowance for uncollectible receivables has been established.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not depreciated:				
Construction in progress	\$ 15,576	\$ 18,569	\$ -	\$ 34,145
Capital assets being depreciated				
Buildings and improvements	4,375,194	-	-	4,375,194
Equipment	753,034	36,495	-	789,529
Furniture and fixtures	381,470	2,832	-	384,302
Materials	741,676	157,147	-	898,823
Total capital assets being depreciated	6,251,374	196,474	-	6,447,848
Less accumulated depreciation				
Buildings and improvements	(614,573)	(88,246)	-	(702,819)
Equipment	(616,812)	(51,770)	-	(668,582)
Furniture and fixtures	(160,769)	(24,551)	-	(185,320)
Materials	(388,937)	(132,159)	-	(521,096)
Total accumulated depreciation	(1,781,091)	(296,726)	-	(2,077,817)
Total capital assets being depreciated, net	4,470,283	(100,252)	-	4,370,031
Governmental activities capital assets, net	<u><u>\$ 4,485,859</u></u>	<u><u>\$ (81,683)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,404,176</u></u>

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

D. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2004, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Description</u>
General fund	Debt service	\$ 10,000	Payments on behalf
	Nonmajor funds	551	Payments on behalf
Total		<u>10,551</u>	

E. Long Term Debt

In 1994 the Library issued general obligation bonds to refund general obligation debt originally issued in 1989 for the construction and equipping of the Library's facility. General obligation bonds are direct obligations and pledge the full faith and credit of the Library. The refunding bonds were issued as a 12 year serial bond with varying amounts of principal due and interest ranging from 3.6% to 5.55% due each year.

Annual debt service requirements to maturity for the general obligation refunding bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 530,000	\$ 57,480
2006	520,000	28,860
Total	<u>\$ 1,050,000</u>	<u>\$ 86,340</u>

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2004, was as follows. Compensated absences are typically liquidated through sources from the general fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 1,535,000	\$	\$ (485,000)	\$ 1,050,000	\$ 530,000
Compensated absences	104,951	44,979	-	149,930	24,054
Long-term liabilities	<u>\$ 1,639,951</u>	<u>\$ 44,979</u>	<u>\$ (485,000)</u>	<u>\$ 1,199,930</u>	<u>\$ 554,054</u>

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The Library has purchased commercial insurance for comprehensive liability, motor vehicle physical damage and property and crime coverage through the Michigan Municipal League (MML). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

All claims of the Library, after meeting the deductible requirements, are paid by MML. MML is responsible for any claims in excess of deductible amounts up to a maximum limit of \$5,000,000. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2004 were \$19,776.

The Library is also a member of the Michigan Municipal Workers Compensation Fund. Premiums from participants are combined to provide all members with coverage for claims. The premiums and interest thereon are used to pay claims, administrative expenses and to purchase reinsurance to protect the fund from exceptionally large losses. In the event of a deficit in a fund year, assessments could be made against the members. No such assessments have been made against the Library in any of the past three fiscal years. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2004 were \$3,850.

B. Commitments

The Library has entered into contract with various suppliers for capital improvements to the Library's facility. As of June 30, 2004 these contract commitments totaled \$164,135 of which \$42,977 have been expended to date. The remaining commitment of \$121,158 will be financed through current and future financial resources.

C. Defined Benefit Pension Plan

The following brief description of the Library's Employee's Retirement Plan (The Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. Plan description

The Library's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent

HOWELL CARNEGIE DISTRICT LIBRARY

HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

2. Eligibility

The Plan provides eligible participants with retirement benefits. All retirement benefits fully vest at age 60 with ten years of credited service. Employees may retire with reduced benefits at age 55 with 15 years of credited service and age 50 with 25 years of credited service. Annual retirement benefits are payable monthly in an amount equal to 2.0% of the retirees final average compensation.

At December 31, 2003 the Plan Participants consisted of:

Retirees and beneficiaries currently receiving	
benefits, terminated vested not receiving benefits	
and long term disabled employees	4
Current employees	<u>9</u>
Total	<u><u>13</u></u>

3. Required contributions

The Library is required to contribute at an actuarially determined rate, which was 9.56% for the year ended June 30, 2004. Employees are currently not required to contribute to the Plan. The contribution requirements of the Library are established, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

4. Summary of significant accounting policies

a. Basis of accounting

The Plan's financial statements are prepared using the accrual basis of accounting. The Library's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized

HOWELL CARNEGIE DISTRICT LIBRARY

HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

when due and payable in accordance with the terms of the plan. The Plan administrative costs are financed through investment earnings.

b. Method used to value assets

The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 5-year period at the rate of 20% per year.

c. Annual pension cost and net pension obligation

The Library's annual pension cost and net pension obligation to the pension plan for the current year was as follows:

	June 30, 2004
Annual required contribution/pension cost	\$ 35,463
Contribution made	(35,463)
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. Benefits are funded on a level percentage of earnings from each participant's date of participation to assumed retirement date. The effect of plan improvements and changes in assumptions are amortized over 30 years. The actuarial assumptions included (a) 8% investment rate of return on the investment, compounded annually, (b) projected salary increases of 4.5% per year compounded annually. There is no assumption for cost of living or inflationary adjustments. There were no concentrations of investments in a single organization of 5% or more.

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

d. Trend information

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ 23,855	100%	\$ -
6/30/03	22,697	100%	-
6/30/04	35,463	100%	-

D. Restatements

As of and for the year ended June 30, 2004, the Library implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussions and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds;

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to the basic financial statements;
- Required supplementary information.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net asset accounts:

Government-wide financial statements – Beginning net assets for governmental activities was determined as follows:

Fund balances of governmental funds as of 6/30/03 as previously stated	\$ 2,659,987
Add: prior period adjustment for penal fine recognition	<u>198,717</u>
Fund balances of governmental funds as of 6/30/03 as restated	2,858,704
Add: governmental capital assets, including general fixed assets as of 6/30/03	6,266,950
Deduct: accumulated depreciation as of 6/30/03 on the above governmental capital assets	(1,781,091)
Deduct principal of remaining general obligation debt as of 6/30/03	(1,535,000)
Deduct accrued interest on general obligation debt as of 6/30/03	(13,824)
Deduct: governmental compensated absences payable as of 6/30/03	<u>(104,951)</u>
Governmental net assets, restated as of 7/1/03	<u>\$ 5,690,788</u>

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED

DEFINED BENEFIT PENSION PLAN TREND INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 337,317	\$ 441,767	\$ 104,450	\$ 76%	\$ 252,549	41%
12/31/02	381,136	472,370	91,234	81%	264,525	34%
12/31/03	415,314	575,738	160,424	72%	310,771	52%

SUPPLEMENTARY INFORMATION

HOWELL CARNEGIE DISTRICT LIBRARY HOWELL, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2004

	Special Revenue Funds		Capital Project Fund	Permanent Fund	
	Contributions and Memorials	Capital Campaign	Building	Endowment	Total
ASSETS					
Cash and investments	\$ 79,777	\$ 150,827	\$ 32,107	\$ 213,434	\$ 476,145
Prepays	-	42,977	-	-	42,977
Total assets	<u>\$ 79,777</u>	<u>\$ 193,804</u>	<u>\$ 32,107</u>	<u>\$ 213,434</u>	<u>\$ 519,122</u>
LIABILITIES					
Accounts payable	\$ 306	\$ -	\$ -	\$ -	\$ 306
Due to other funds	-	551	-	-	551
Total liabilities	<u>306</u>	<u>551</u>	<u>-</u>	<u>-</u>	<u>857</u>
FUND BALANCES/NET ASSETS					
Fund balances:					
Reserved for:					
Prepays	-	42,977	-	-	42,977
Capital additions	-	150,276	32,107	2,597	184,980
Archives	5,514	-	-	9,553	15,067
Nonexpendable endowment	-	-	-	141,913	141,913
Other purposes	5,100	-	-	13,426	18,526
Unreserved, undesignated	68,857	-	-	45,945	114,802
Total fund balances	<u>79,471</u>	<u>193,253</u>	<u>32,107</u>	<u>213,434</u>	<u>518,265</u>
Total liabilities and fund balances	<u>\$ 79,777</u>	<u>\$ 193,804</u>	<u>\$ 32,107</u>	<u>\$ 213,434</u>	<u>\$ 519,122</u>

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue Funds</u>		<u>Capital Project Fund</u>	<u>Permanent Fund</u>	
	<u>Contributions and Memorials</u>	<u>Capital Campaign</u>	<u>Building</u>	<u>Endowment</u>	<u>Total</u>
REVENUES					
Contributions and memorials	\$ 23,649	\$ 105,074	\$ -	\$ 1,900	\$ 130,623
Investment earnings	423	1,122	196	2,683	4,424
Total revenues	<u>24,072</u>	<u>106,196</u>	<u>196</u>	<u>4,583</u>	<u>135,047</u>
EXPENDITURES					
Program materials	1,580	-	-	-	1,580
Operating supplies	1,632	1,463	-	-	3,095
Capital outlay	<u>18,466</u>	<u>18,569</u>	<u>-</u>	<u>-</u>	<u>37,035</u>
Total expenditures	<u>21,678</u>	<u>20,032</u>	<u>-</u>	<u>-</u>	<u>41,710</u>
NET CHANGE IN FUND BALANCES	2,394	86,164	196	4,583	93,337
FUND BALANCES, BEGINNING OF YEAR	<u>77,077</u>	<u>107,089</u>	<u>31,911</u>	<u>208,851</u>	<u>424,928</u>
FUND BALANCES, END OF YEAR	<u>\$ 79,471</u>	<u>\$ 193,253</u>	<u>\$ 32,107</u>	<u>\$ 213,434</u>	<u>\$ 518,265</u>

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**CONTRIBUTIONS AND MEMORIALS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Contributions and memorials	\$ 32,313	\$ 32,313	\$ 23,649	\$ (8,664)
Investment earnings	575	575	423	(152)
Total revenues	<u>32,888</u>	<u>32,888</u>	<u>24,072</u>	<u>(8,816)</u>
EXPENDITURES				
Program materials	1,500	1,500	1,580	(80)
Operating supplies	2,000	2,000	1,632	368
Other expenditures	-	-	-	-
Capital outlay	34,648	34,648	18,466	16,182
Total expenditures	<u>38,148</u>	<u>38,148</u>	<u>21,678</u>	<u>16,470</u>
NET CHANGE IN FUND BALANCES	(5,260)	(5,260)	2,394	7,654
FUND BALANCES, BEGINNING OF YEAR	<u>77,077</u>	<u>77,077</u>	<u>77,077</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 71,817</u></u>	<u><u>\$ 71,817</u></u>	<u><u>\$ 79,471</u></u>	<u><u>\$ 7,654</u></u>

**HOWELL CARNEGIE DISTRICT LIBRARY
HOWELL, MICHIGAN**

**CAPITAL CAMPAIGN FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Contributions and memorials	\$ 110,000	\$ 110,000	\$ 105,074	\$ (4,926)
Investment earnings	300	300	1,122	822
Total revenues	<u>110,300</u>	<u>110,300</u>	<u>106,196</u>	<u>(4,104)</u>
EXPENDITURES				
Operating supplies	11,300	11,300	1,463	9,837
Capital outlay	<u>239,000</u>	<u>239,000</u>	<u>18,569</u>	<u>220,431</u>
Total expenditures	<u>250,300</u>	<u>250,300</u>	<u>20,032</u>	<u>230,268</u>
REVENUES OVER (UNDER) EXPENDITURES	(140,000)	(140,000)	86,164	226,164
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
NET CHANGE IN FUND BALANCES	(110,000)	(110,000)	86,164	196,164
FUND BALANCES, BEGINNING OF YEAR	<u>107,089</u>	<u>107,089</u>	<u>107,089</u>	<u>-</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (2,911)</u>	<u>\$ (2,911)</u>	<u>\$ 193,253</u>	<u>\$ 196,164</u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 30, 2004

To the Board of Trustees
Howell Carnegie District Library
Howell, Michigan

We have audited the financial statements of the governmental activities of the *Howell Carnegie District Library* (the "Library") as of and for the year ended June 30, 2004, which collectively comprise the *Library's* basic financial statements and have issued our report thereon dated July 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether *the Library's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *the Library's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the **Library** in a separate letter dated July 30, 2004.

This report is intended solely for the information and use of management, the Library Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohsen". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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July 30, 2004

To The Howell Carnegie District Library
Howell, Michigan

In planning and performing our audit of the financial statements of the ***Howell Carnegie District Library***, for the year ended June 30, 2004, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated July 30, 2004, on the financial statements of the ***Howell Carnegie District Library***.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Library personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Library in implementing the recommendations.

We would like to thank the staff and management of the ***Howell Carnegie District Library*** for their assistance and cooperation in completing the audit.

A.) APPROVE JOURNAL ENTRIES

Our review of the general journal entries revealed that most entries lack proper approval by a responsible employee. We recommend the adoption of a policy whereby all journal entries will be approved by a designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

B.) ACH POLICY

In December of 2002, the State of Michigan enacted Public Act 738 of 2002 which requires governmental entities to adopt by, a policy for ACH (Automated Clearing House) electronic transactions. During our procedures, we noted no such policy adopted. We recommend that the Library consider adopting an ACH policy in accordance with Public Act 738 of 2002.

C.) ENTRIES TO FUND BALANCE

During our tie out of beginning fund balance amounts, we noted several entries that were made to beginning fund balance accounts. In further investigation, we noted that these entries were intended be budgeting adjustments. In the case of budgeting adjustments, there should be no entries to actual amounts in the accounting records as this will distort the actual activity of the Library during the period being reported.

D.) GOVERNMENTAL FUNDS

During our procedures, we noted that the Library maintains several funds that may be considered unnecessary under current State of Michigan accounting guidance. Typically a fund should only be created when there are legal restrictions as to the use by the funding sources.

We noted that the Library maintains a Capital Project Fund-Equipment, Capital Project Building, and Capital Campaign Funds. We noted that the amounts in the Capital Project-Equipment Fund did not appear to be legally restricted as to use. In addition, the Board may want to consider including the Capital Campaign Fund as a department of the Contributions and Memorials Fund or account for the contributions directly in the Capital Projects-Building Fund.

E.) USE OF AVAILABLE RESTRICTED ASSETS

During our audit we noted that resources in the General Fund were expended on items that were eligible for appropriations from the Permanent Fund along with the Contributions and Memorials Fund. This practice ultimately reduces Board directed appropriations of undesignated fund balance in the General Fund by building up reserves in restricted funds.

We would recommend that the Board consider adopting a policy of appropriating available restricted assets to satisfy budget requirements before appropriating unrestricted assets from the General Fund. In addition, we would also recommend transferring any available Board determinable resources that remain in the above mentioned funds to the General Fund at year end.